

AR79

Annual Report 1970



Electronic Associates of Canada Ltd
Electronic AUTOMATED SYSTEMS Inc.

Your Company has recently adopted a new identification theme based upon a contemporary corporate symbol and distinctive lettering.

Our new symbol portrays the dynamics of the complete EA group of companies as well as our corporate integrity. Extending into our special segment of the industrial world, the symbol represents such factors as cyclic variations in process control—moisture and basis weight, for example—being brought back to desired values through EA control concepts and capabilities.

Striking type treatment calls immediate attention to the EA abbreviation. The simple lettering reinforces EA group unity, bringing together the collective talents of Electronic Associates of Canada Limited, Electronic Automation Systems Inc., and Nuclear Radiation Developments, Inc.

This new look is being incorporated into the Company's literature, advertising, and products. It is expected to lead to heightened public and customer awareness of our family of companies.

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Our Silver Anniversary

This 1970 Annual Report marks the beginning of EA's twenty-fifth year of operation.

Since 1946, your Company has developed from little more than a sound technological idea in Toronto, Ontario in Canada to a major international organization with plants, installations, and representatives in various cities across the world.

We are presently recognized as one of the leaders in supplying instrumentation systems including process computers to the pulp and paper industries of both United States and Canada. Sales for that first struggling year amounted to \$30,000; less than 1% of the volume reported for fiscal 1970.

Our capabilities have grown since those early days from specialized custom designed devices to sophisticated technology in software, systems hardware, field implementation, and application services. In our infancy in 1946 our founders foresaw the vast potential of electronic control systems. This future was outlined in a now historic article on automation of processes in the November, 1946 issue of Fortune.

In 1964, Electronic Associates of Canada Ltd. took an important step forward by expanding into the United States. Recognizing the tremendous market potential for our systems in the American pulp and paper industry, EAC created Electronic Automation Systems, Inc. with Sales, Manufacturing and Service facilities based in Grand Island, New York.

In August of 1968 EA completed negotiations with the U.S. Radium Corporation to purchase certain assets and formed Nuclear Radiation Developments, Inc. as the initial step in developing the potential market for specialized radioactive sources and systems for the growing field of nuclear device applications in both the United States and Canada.

As 1971 passes, you will see and hear more about EA's Silver Anniversary celebration. At the present time the initial market research is being finalized to explore other industrial areas for the complete line of corporate systems and products, and emphasis will be placed on the capabilities of our technical personnel and their expertise in numerous fields and endeavors.

For some readers this report will be an introduction to EA. We welcome you to our Company and hope that you will become increasingly interested in our business. For others, this report is an equally warm welcome to friends who have a share in EA's formative years.

1970 In Perspective

The past year was one of both achievement and frustration for the EA family of companies.

Like most firms in the United States and Canada we experienced the effects of the general economic slowdown. Because a major portion of our business requires customer capital expenditures, we felt the impact somewhat earlier than firms whose activities center in services or retail markets.

NELSON M. GRAVES JR.

VICE PRESIDENT, CORPORATE DEVELOPMENT

ELECTRONIC AUTOMATION SYSTEMS, INC.
2957 ALT BOULEVARD
GRAND ISLAND, NEW YORK
AREA CODE 716 - 773-7525

If our position was one of the first to be adversely affected by overall business conditions, however, it is more likely to be an early beneficiary of an economic upturn. Toward the end of the year, we enjoyed improving conditions, highlighted by receiving an order in excess of \$1,000,000 representing the largest single order ever placed in our industry for process control and measurement systems.

Nuclear Radiation Developments, Inc.—popularly known as NRD—completed its first full year under EA management. Although sales and earnings for the division did not meet initial projections, late-year developments indicated encouraging signs for the coming fiscal year. We expect that NRD will make an important contribution to future earnings.

We project a continuation of the last-quarter momentum into our Silver Anniversary and expect that 1971 will be profitable for the EA Group.

Sales

The long anticipated need for the paper industry to acquire more sophisticated process control systems has definitely become a reality.

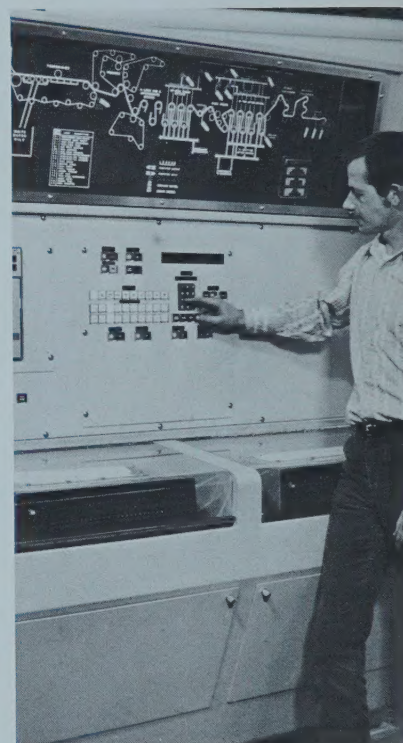
In 1970, one major paper manufacturer placed with EA the largest single order ever awarded our industry. EA was commissioned to equip four paper machines with process computer systems in conjunction with additional control equipment. The first successful direct digital process control computer system—reported in the 1969 annual report—was followed in 1970 by two more computer systems orders from this same customer.

Broad-based customer acceptance of EA process control equipment impressively demonstrates high systems reliability. EA has been able to guarantee system performance with better than 99% availability. Although capital expenditures for paper machine installations have decreased, it is significant to note that your company has been awarded more than 80% of all process control equipment orders placed during the past four years for either new paper machine installations or the major rebuilding of existing machines.

Thanks to a newly developed microwave moisture gauge, EA now serves the linerboard industry and the cylinder board industries. We provided several successful installations for both in 1970. To accommodate Company growth in this area, EA has expanded its marketing and sales staff.

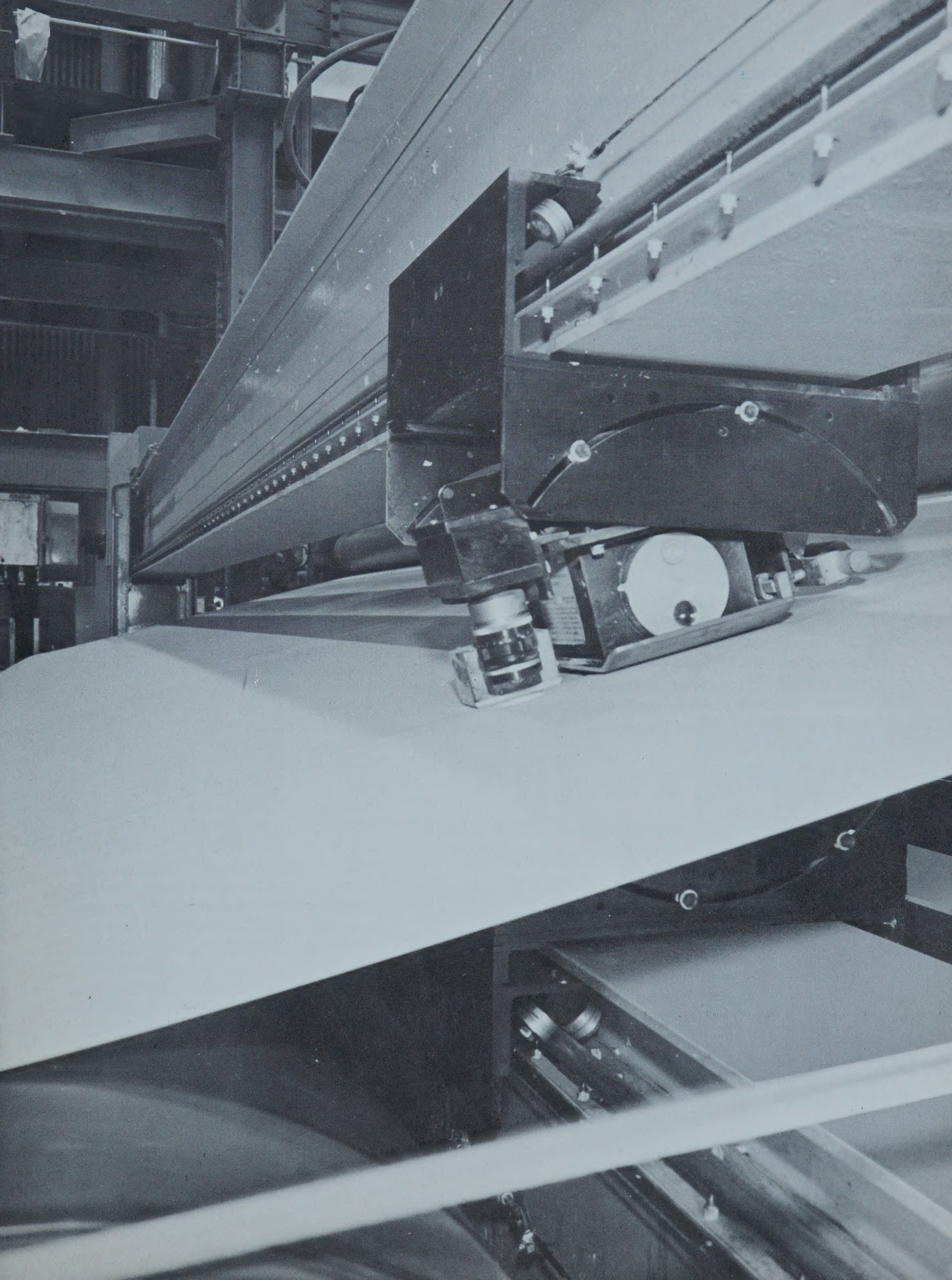
During 1970 we presented a number of proposals to paper manufacturers for bleach plant computer control systems that we are confident will signal EA's entry into this system in 1971. We also made plans to actively market computer systems for digester control, recovery control, and the finishing room.

Our 1970 Sales have established a sound base from which to expand previously existing markets and to explore new potentials. We look forward optimistically, to sales growth patterns in excess of the industry average.



The Digital Process Control System includes two printers for management quality summaries and alarm messages; graphic display of the actual paper making process; and the CRT to provide the operator with constant information on process status.

Installation of Basis Weight, Moisture, Formation, and Caliper systems on 388 inch newsprint machine. 24 inch beams in traversing system are necessary to maintain minimum deflection across large span.



Process Systems Division

The past year was a busy and progressive one for the Process Systems Division.

EA completed the computer system for International Paper Company's Number 1 paper machine at Jay, Maine, and immediately began work on a similar system for the same corporation's new Number 8 machine being built at Ticonderoga, New York.

In early Fall, the Process Systems Division began preparing the specifications for the computerized control systems for four paper machines at the Fraser Paper Company mill in Madawaska, Maine. These systems incorporate the unique technology and philosophy of providing time-shared control of two paper machine control systems from a single dedicated digital process computer.

Toward the end of the year, the Division began preliminary specifications for the dedicated process control computer system to be installed on a second International Paper Company machine also at Ticonderoga, New York. The successful commitment for this system was undoubtedly obtained because of our success in developing a philosophy of control which allowed time-sharing of the computer hardware originally provided for the No. 8 machine at Ticonderoga.

The EAX, the software systems or computer program developed by EA, has been expanded and redesigned to increase flexibility. It is now possible for us to use the standard software system to provide digital control of numerous processes, utilizing a standard software system which may be customized at minimum cost to meet the needs of a specific application or process.

To utilize the full potential of the expertise which has been developed in both software and hardware, we have reached a joint marketing agreement with one of the leading Canadian consulting groups in the mining industry to actively market our systems in that industry. Undoubtedly, the experiences and capabilities which we have in the pulp and paper industry can also be applied to other industries.

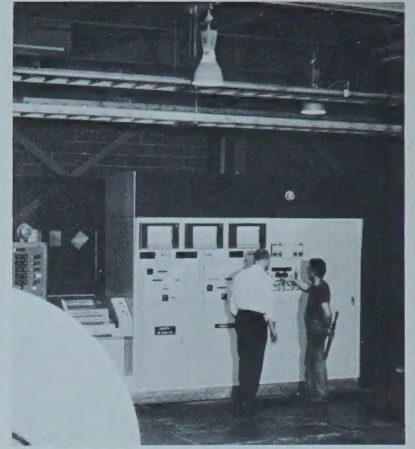
Engineering

The growth of your Company depends, to a considerable extent, upon the development of new products and techniques that contribute to an expanding sales base.

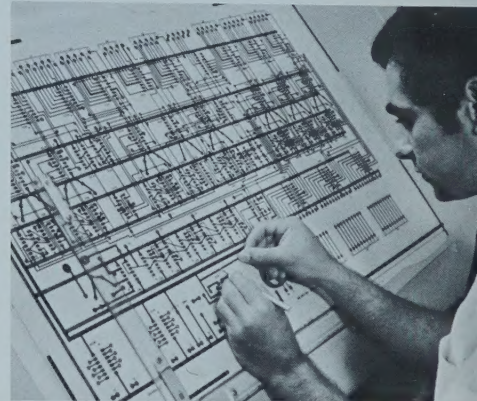
During 1970, EA introduced two new products that represent milestones in the process measurement and control industry: a microwave moisture gauge, known as Gigatel IV, and an Information Channel for processing and displaying data in digital form.

The Gigatel IV meets the requirements for moisture measurement in heavy-grade papers, such as sack, kraft, liner and cylinder board. It also has applications at intermediate drier sections on newsprint machines. By the end of 1970, EA had installed systems for both of these applications, with gratifying results.

Our other microwave gauge, Gigatel III, is an established reliable device for sensing relatively high moisture levels; and the Aquatel



First Digital Control System installed by EA. The computer, printers, and electronic components are located adjacent to paper machine in air conditioned cabinetry.



In depth electronic capabilities allows EA to design complicated circuitry such as the new Data Channel and Digital Display Systems.

has, for many years, been our standard for newsprint and fine paper application.

The Information Channel is a step forward in our program of providing the human engineering for smooth interfacing of operator and control system. There is a definite trend in our technology to present information in digital form where fast interpretation is required. A digital or numerical display reduces the chance of error where quick assimilation and interpretation of information are needed. The information channel also allows transmission of digital information for remote displays as well as production quality summaries and management information.

Although new equipment spotlights the glamour area of engineering, the Engineering Department performs many other functions that are vital to smooth and profitable Company operation. Engineering produces manufacturing releases from which our equipment is produced; lends assistance to the Production Department; checks equipment before shipment; works with Sales Department in technical areas; writes instruction manuals and helps train EA technical service representatives as well as customer technicians.

Customer Service

As in previous years the demand for technical services continued to grow in 1970.

The increase in service demand is attributed to new system installations, in addition to those already in the field, as well as the increasing demand for the various services offered, such as application programs, economic evaluation services, and other areas involving technical assistance. Indeed the growth would be even more rapid had our systems not become recognized for their high degree of reliability with minimum maintenance services.

EA has traditionally led the field in technical developments thus creating a demand for technical services to update existing installations. Because the Customer Service Department provides training courses for customer personnel at EA plant locations as well as in customer mills, it is a continual challenge to selectively employ those personnel with the necessary skills and experiences to maintain the level of technology and application experience required by our customers.

New field locations were added during 1970 to meet the increased demand for service and to place technical representatives closer to areas of customer activity. Added service calls have more than compensated for the enlarged technical staff. We have been able, as a result, to deploy Customer Service Technicians more efficiently and economically.

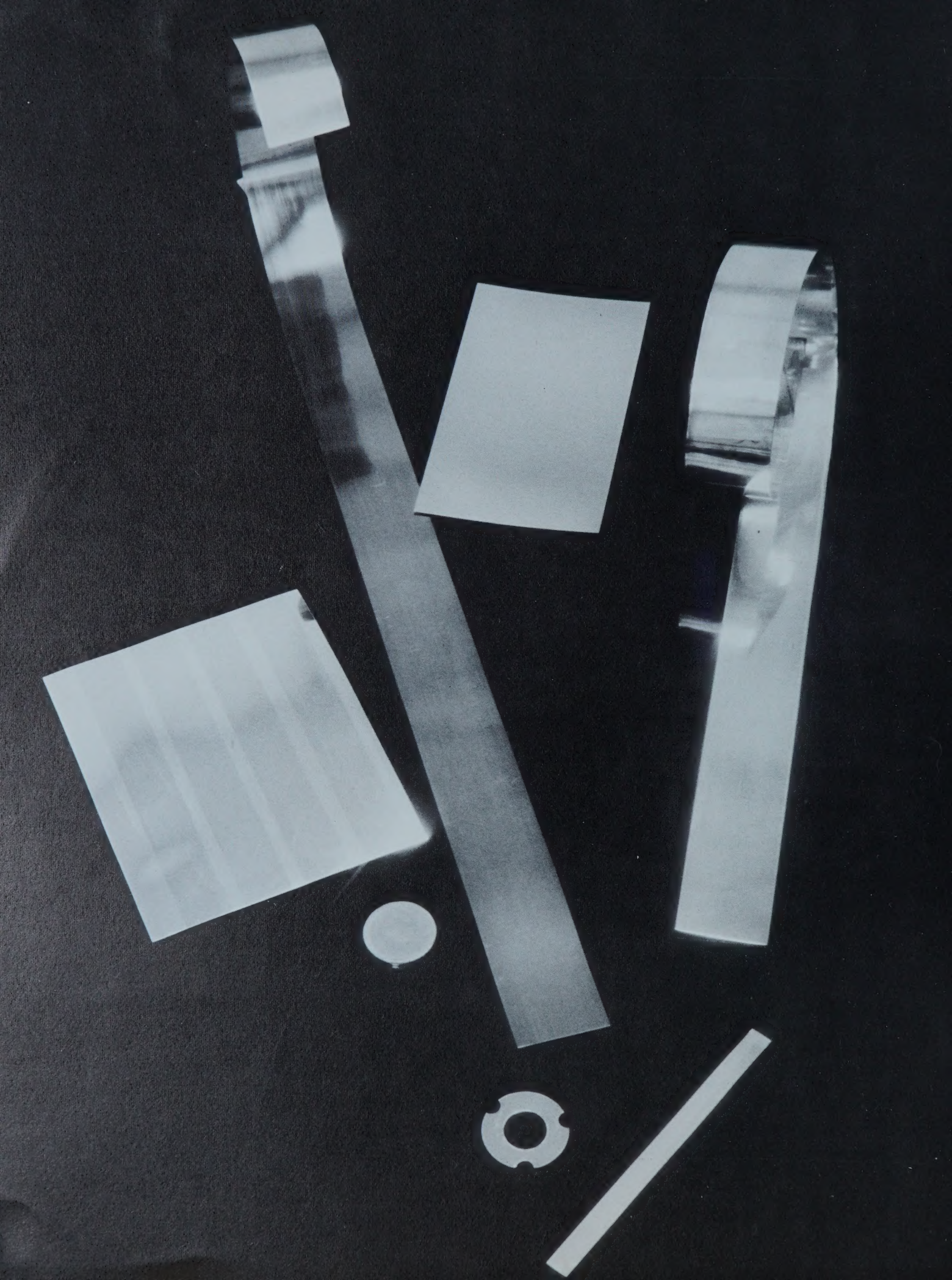
The number of technical assistance contracts increased substantially during 1970, due to increased customer recognition of the benefits that can be gained from regular service. Technical assistance contracts have been instrumental in achieving the exceptionally high level of availability in EA systems when maintenance routines are performed as recommended. Contracts normally include operator and maintenance training, assistance in



Customer Service representatives conduct on site training courses for customer maintenance personnel.



Courses are periodically conducted for EA and customer personnel in sensing equipment theory, application, and paper making technology.



preparation of process surveys and studies, application programs, and economic justification studies.

Although the cost of employment and training of highly skilled technical personnel continues to increase, the expansion of services and the increased efficiency of the Customer Service Department in 1970 resulted in increased revenues and contributions to corporate earnings.

Nuclear Radiation Developments, Inc.

Although sales for 1970 were less than originally forecast, year-end indications proved that several new marketing plans will enhance NRD performance in 1971.

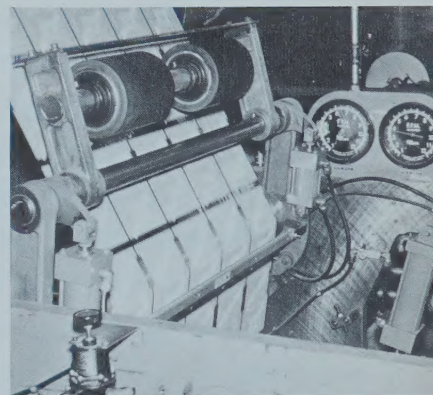
During our negotiations for acquisition of the particular area of activity which has now developed into NRD, the active marketing efforts of the former company decreased considerably. Upon completion of the NRD facilities in Grand Island for the production of the specialized nuclear foils, it became apparent that the delays in our getting into production had eroded our position in the market; and that much work would be required to regain the business previously enjoyed by the predecessor company. Indications at year-end show that the marketing efforts by NRD are beginning to be successful in that respect.

The static eliminators have been redesigned incorporating new geometry which greatly improves the performance characteristics. Static eliminators offer a large marketing potential for many processes including printing and converting operations in the paper industry, the processing of plastic film, and increased ease of handling of microfilm, data processing tapes, and tape transport systems. Static elimination by nuclear means overcome handling problems associated with static build-up as well as eliminating potential fire and explosion hazards caused by spark discharge.

Under a marketing agreement with NRD, Herbert Products of Westbury, New York, will market the new static eliminators in the United States and Canada. Herbert Products has over 20 years in the elimination industry, and their experience and established contacts in the marketplace have already proved advantageous. NRD has arranged with the National Research Council of Canada for government-supported research and development of gas-filled detectors for new and/or existing applications representing substantial marketing potential.

We are also in the development stage of a series of devices incorporating the use of nuclear foils and detectors which will allow us to be oriented more strongly toward end use of NRD manufactured products and systems. The market potential for these products appear extremely favorable for NRD in such fields as smoke detection, pollution abatement, gas analysis and gas chromatography.

Increased sophistication of products to meet new applications as well as increased emphasis on quality assurance requires specialized manufacturing techniques and employment of personnel with strong technological skills and experiences.



Static Eliminators reduce spark and explosion hazards from web in a printing operation.

Nuclear Foils and typical NRD products incorporated in specialized radiation sources for analysis equipment, and static eliminators.

To the Shareholders

At last year's annual meeting I pointed out that while the orders in hand and the forecast for the first half of the year were reasonably satisfactory in view of the economic situations then prevailing, our progress during the remainder of the year would be largely predicated upon the economic conditions in the paper industry.

As you are all aware, the effects of the anti-inflationary measures of the Governments of Canada and the U.S. have resulted in many postponements of capital expenditures in large segments of the paper industry. In addition, in Canada, the freeing of the Canadian dollar has resulted in serious reduction in the profits of many of the paper companies. Presently many mills are operating on reduced schedules. As a result EA's business has been considerably reduced below what we had estimated in terms of a steady or rising economy. In addition, NRD's sales volume did not rise to the expected value and has contributed losses rather than profits to the overall company operations. As a result EA has suffered the first loss in its operation in four years.



We have taken such measures as are practical to reduce our expenses without damaging the long-term prospects of the company. We have vigorously reassessed our product posture as well as each department within our companies. 1971 has been forecast as a year of recovery and initially this recovery was expected to start in the first quarter. This quite obviously has not happened. Most economists now forecast a recovery getting underway by the third quarter and being well established in the fourth. If these forecasts are realized EA should return to profitability this year. Our 1971 first quarter shipments were the highest in our history partially due to orders which, for customer requirement reasons, were awarded but not delivered in 1970. Indeed, this was one of the major factors contributing to our low sales and lack of profits in 1970. 1972 is expected to be a much better year than 1971.

In NRD our components for the smoke detector and analysis equipment did not grow as rapidly as we had expected because of the economic slowdown. However, we have developed a new line of static eliminators and have appointed a leading North American distributor for this line of products. We are enthusiastic about the prospects of the sales of these devices as well as in the development of a number of new products in the NRD group which will increase our volume of sales and profitability.

During 1970 we obtained orders for a number of computer systems from major paper companies and these systems were shipped in the first quarter of 1971. All are now operating satisfactorily. We believe that we have developed a unique competence in this new and growing field. The systems that we have installed have superior overall control capabilities than those of our competitors; and we feel confident in maintaining this lead position.

In spite of the problems of 1970 the company remained strong and much work has been accomplished in improving our products and building for a more prosperous future. The longer term prospects for our products and services is excellent and all business forecasts in our area of specialization show a large long term growth. We believe that we will be able to maintain and improve our position in this marketplace.



E. W. Leaver
President

Electronic Associates of Canada Limited

And Its Subsidiary Companies

Consolidated Statement of Income

	<i>Year ended December 31</i>	
	<u>1970</u>	<u>1969</u>
Sales and other revenue:		
Trade	\$2,870,480	\$3,170,610
Affiliated company	<u>798,303</u>	<u>370,018</u>
	<u>3,668,783</u>	<u>3,540,628</u>
Costs and expenses:		
Cost of products and services sold, and all expenses except those shown below	3,674,431	2,982,686
Depreciation	77,592	36,770
Amortization of development costs (Note 3)	49,892	46,508
Amortization of pre-operating expenses (Note 4)	24,208	—
Interest on long-term debt, including amortization of debt discount and expense	<u>60,876</u>	<u>48,815</u>
	<u>3,886,999</u>	<u>3,114,779</u>
Operating income (loss)	(218,216)	425,849
Provision for income taxes:		
Current	(179,220)	39,128
Deferred	<u>90,697</u>	<u>175,803</u>
	<u>(88,523)</u>	<u>214,931</u>
Net income (loss) for year	<u>\$ (129,693)</u>	<u>\$ 210,918</u>
Net income (loss) per share	<u><u>\$(0.17)</u></u>	<u><u>\$0.29</u></u>

Consolidated Statement of Retained Earnings

	<i>Year ended December 31</i>	
	<u>1970</u>	<u>1969</u>
Balance at beginning of year	\$ 607,287	\$ 396,369
Net income (loss) for the year	<u>(129,693)</u>	<u>210,918</u>
Balance at end of year	<u><u>\$ 477,594</u></u>	<u><u>\$ 607,287</u></u>

Consolidated Statement of Source and Application of Funds

	Year ended December 31	
	1970	1969
Source of funds:		
Net income (loss) for the year	\$ (129,693)	\$ 210,918
Non-cash items deducted in arriving at net income-		
Depreciation	77,592	36,770
Amortization of development costs (Note 3)	49,892	46,508
Amortization of pre-operating expenses (Note 4)	24,208	—
Amortization of debt discount and expense	3,767	3,768
Deferred income taxes	90,697	175,803
Provided from operations	116,463	473,767
Issue of shares	28,850	1,141,690
Increase in long-term debt, net	104,299	—
	<u>249,612</u>	<u>1,615,457</u>
Application of funds:		
Acquisition of fixed assets, net	157,831	765,390
Additions to deferred charges and other assets	221,141	284,826
Decrease in long-term debt, net	—	5,736
	<u>378,972</u>	<u>1,055,952</u>
Increase (decrease) in working capital for year	(129,360)	559,505
Working capital at beginning of year	1,443,168	883,663
Working capital at end of year	<u>\$1,313,808</u>	<u>\$1,443,168</u>

(See accompanying notes to consolidated financial statements.)

Electronic Associates of Canada Limited

And Its Subsidiary Companies

Consolidated Balance Sheet

		<i>December 31</i>	
		<u>1970</u>	<u>1969</u>
Assets			
Current assets:			
Cash (including short-term deposits of \$150,000 in 1969)		\$ 12,272	\$ 171,504
Accounts receivable (Notes 4 and 5)		688,226	1,101,904
Income taxes recoverable		209,651	218,010
Owing by affiliated company		969,508	322,163
Inventories, at lower of cost and net realizable value (Notes 4 and 5)		1,370,103	974,701
Prepaid expenses		20,534	15,708
		<u>3,270,294</u>	<u>2,803,990</u>
Fixed assets, at cost:			
Land and buildings		881,688	858,125
Machinery and equipment		522,521	379,416
		<u>1,404,209</u>	<u>1,237,541</u>
Less: Accumulated depreciation		231,549	145,120
		<u>1,172,660</u>	<u>1,092,421</u>
Deferred charges and other assets:			
Unamortized development costs (Note 2)		416,774	250,167
Unamortized debt discount and financing expenses		18,836	22,603
Pre-operating expenses of subsidiary company (Note 3)		95,937	120,271
Other deferred charges		18,408	13,640
8% note receivable—due 1983		10,775	10,775
Goodwill, patents and trademarks		8,024	8,024
		<u>568,754</u>	<u>425,480</u>
		<u><u>\$5,011,708</u></u>	<u><u>\$4,321,891</u></u>

Liabilities

	<i>December 31</i>	
	<u>1970</u>	<u>1969</u>
Current liabilities:		
Bank indebtedness (Note 4)	\$ 540,000	\$ 150,238
Accounts payable and accrued liabilities	1,028,505	893,554
Advance payments from customers	125,561	91,342
Income taxes payable	10,180	184,000
Long-term debt payments due within one year	252,240	41,688
	<u>1,956,486</u>	<u>1,360,822</u>
Long-term debt (Note 5), less portion included in current liabilities	788,418	684,119
Deferred income taxes	266,500	175,803
	<u>3,011,404</u>	<u>2,220,744</u>

Shareholders' Equity

Capital stock (Note 6):		
Authorized—		
1,500,000 common shares without par value		
Issued and fully paid—		
753,548 shares (1969—745,723)	1,474,621	1,445,771
Contributed surplus	48,089	48,089
Retained earnings	477,594	607,287
	<u>2,000,304</u>	<u>2,101,147</u>

Approved on Behalf of the Board:


 Director


 Director

\$5,011,708	\$4,321,891
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(See accompanying notes to consolidated financial statements.)

Financial Charts

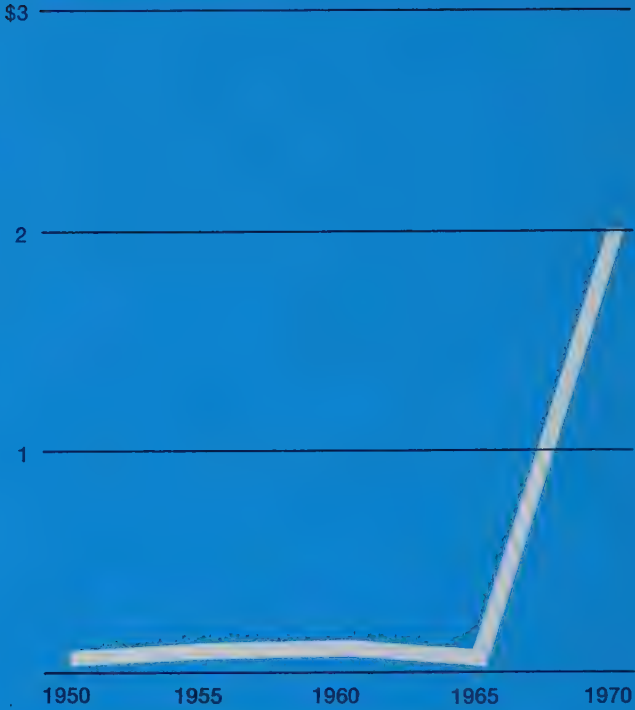
Sales

Millions of Dollars



Shareholders Equity

Millions of Dollars



Total Assets

Millions of Dollars



Working Capital

Millions of Dollars



Notes to Consolidated Financial Statements

December 31, 1970

1. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiary companies all of which are wholly-owned.

Foreign currency balances included in the consolidated financial statements have been expressed in Canadian dollars on the following bases:

Current assets and liabilities	— at rate of exchange December 31, 1970
Long-term debt	— at rate of exchange December 31, 1970
Other assets and liabilities	— at historical rates of exchange
Income and expenses	— at average rates of exchange for 1970

In 1970 the basis of translating long-term debt was changed from historical to the current rate of exchange. The effect of this change was to decrease the net loss for the year ended December 31, 1970 by approximately \$30,000. If this change had been adopted retroactively, it would have had no significant effect on net income for the year ended December 31, 1969.

2. Unamortized development costs:

Research and development costs incurred in 1970 relating to several new types of equipment amounted to \$337,833 and will be amortized over a five year period that commenced in 1970.

At December 31, 1970 these costs plus the balance of development costs incurred in prior years amounted to \$416,774 of which approximately \$90,471 will be charged to income in 1971.

3. Pre-operating expenses of subsidiary company:

Nuclear Radiation Developments, Inc., which was in the pre-operating stage in 1969, commenced normal operations in early 1970. Deferred pre-operating expenses of \$120,271 as at December 31, 1969 are being amortized over a five year period commencing in 1970.

4. Bank indebtedness:

Bank loans of \$517,000 are secured by an assignment of accounts receivable and inventories.

5. Long-term debt:

	December 31	
	1970	1969
Electronic Associates of Canada Limited—		
6% first mortgage (term has expired but mortgagee has extended maturity for an indefinite period)	\$ 56,000	\$ 56,000
5% sinking fund mortgage debentures, Series A due May 1, 1975	177,000	177,000
6% second floating charge convertible debentures due December 31, 1971	113,000	113,000
Conditional sales contract due September 1973	5,139	6,906
	<u>351,139</u>	<u>352,906</u>

	December 31	
	1970	1969
Subsidiary (guaranteed in part by parent company)—		
7% promissory note secured by assignment of accounts receivable and inventories	202,000	215,500
Mortgages payable—		
With interest at		
2½ % above prime rate—		
Due March 1985, payable in monthly instalments of U.S. \$1,701 plus interest	53,105	—
Due March 1980, payable in monthly instalments of U.S. \$474 plus interest	293,805	—
Payable in monthly instalments of U.S. \$1,328 principal and interest—		
6½ % due October 1983 ..	76,928	86,059
6% due September 1983 ..	43,310	48,548
6½ % due September 1983 ..	20,371	22,794
	<u>1,040,658</u>	<u>725,807</u>
Less: Portion included in current liabilities	252,240	41,688
	<u>\$ 788,418</u>	<u>\$684,119</u>

The maximum annual sinking fund payment relating to the 5% sinking fund mortgage debentures, Series A, is \$32,500. Under the terms of the trust deed, no sinking fund payment is required in 1971; the payment is deferred and is contingent on future earnings.

The trust indenture relating to the 5% sinking fund mortgage debentures, Series A, contains certain provisions prohibiting the declaration of dividends or reduction of capital which would reduce consolidated net current assets (as defined) below a certain level. As at December 31, 1970 such net current assets exceeded the minimum requirements by approximately \$900,000.

The 6% second floating charge convertible debentures are convertible into common shares in the capital stock of the Company at the rate of 1,000 shares for each \$1,000 principal amount of debentures converted up to December 31, 1971.

6. Capital stock:

During 1970 the following shares were issued:

2,825	Under employees' share participation plan, for a consideration of	\$22,600
5,000	Under share option plan for a consideration of	6,250
		<u>\$28,850</u>
7,825		

Notes to Consolidated Financial Statement

December 31, 1970

At December 31, 1970, the Company had reserved certain shares for issue as follows:

	<i>Number of shares</i>
(a) For conversion of 6% floating charge convertible debentures	113,000
(b) For issue under employee share option plans (see below)	20,000
(c) For issue in consideration of a bank loan, made to a subsidiary company, at U.S. \$15 per share expiring on March 27, 1975 or a date 90 days subsequent to the date of repayment of the loan	1,000
(d) For issue under employee share participation plan (see below)	8,890
	<u>142,890</u>

Share option plans:

At December 31, 1970 the Company had set aside under share option plans, 1,000 shares for issue at \$1.25 per share, and 19,000 shares for issue at a price of approximately 85% of the market value of the shares during the twelve month period immediately preceding the date the option is granted. At December 31, 1970 options were outstanding covering 2,000 shares.

Employee share participation plan:

In 1968 the Company adopted an employee share participation plan whereby certain employees of the Company and its subsidiaries would receive common shares of the Company as future bonus compensation based upon length of service and other qualifications. At December 31, 1970 an

estimated 8,890 shares were reserved for future issue to employees designated under the plan at closing bid prices on March 15, the respective day of issue in each of the years 1971 through 1974. As at March 15, 1971 the Company issued 3,587 common shares under the plan for an aggregate consideration of \$9,864. Under the plan, the companies compensate the employees acquiring shares in an amount equal to the consideration paid for the shares; at March 15, 1971 the cost to the companies relative to the shares issued on that date was \$9,864. At current market prices, the cost relative to the remaining shares which may be issued under the plan is approximately \$11,000.

7. Contingencies:

Product warranty costs are not provided for at time of sale but are expensed as incurred. Subsequent to December 31, 1970, certain claims have been made relating to product warranty which management believes will not involve significant costs to the companies.

As at December 31, 1970, a subsidiary was engaged in the installation for certain customers of operating systems involving significant amounts, the major portion of which is subject to the acceptance by the customers upon completion of the trial period subsequent to installation.

Electronic Associates of Canada Limited has been named as a defendant in certain legal actions. Counsel has advised that the company has a reasonable defense and that if unsuccessful it will have a claim for indemnification from the co-defendant.

8. Remuneration of directors and senior officers:

The total remuneration of directors and senior officers amounted to approximately \$171,000 (1969—\$110,000).

Auditors' Report

To the Shareholders of
Electronic Associates of Canada Limited:

We have examined the consolidated balance sheet of Electronic Associates of Canada Limited and its subsidiary companies as at December 31, 1970 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change in the basis of translating foreign currency balances as described in Note 1 to the financial statements, have been applied on a basis consistent with that of the preceding year.

Toronto, Canada
April 30, 1971

Price Waterhouse & Co.
Chartered Accountants

Officers, Directors, and Senior Executives

Electronic Associates of Canada Limited

Eric W. Leaver	President and Director
George R. Mounce	Vice President, Secretary-Treasurer and Director
Nelson M. Graves, Jr.	Vice President Finance
C. H. Fraser	Vice President Manufacturing
F. A. MacMillan	Manager, Process Systems Division
C. MacConnell	Director
Dr. J. J. Brown	Director
J. R. Woods	Director
William D. Wood	Controller

Electronic Automation Systems, Inc.

Eric W. Leaver	President and Director
George R. Mounce	Senior Vice President and Director
C. H. Fraser	Vice President Manufacturing and Director
Nelson M. Graves, Jr.	Vice President Finance and Director
Jan Boersma	Vice President Sales
Bernard H. Stapley	Manager, Customer Service

Nuclear Radiation Developments, Inc.

Eric W. Leaver	President and Director
C. W. Wallhausen	Vice President and Director
Nelson M. Graves, Jr.	Secretary-Treasurer and Director
Theodore W. Taylor	General Manager, N.R.D. Plant
Robert H. Bull	Manager Technical Sales

Electronics Associates of Canada Limited

4616 Yonge Street, Willowdale, Ontario, Canada

Electronic Automation Systems, Inc.

2957 Alt Blvd., Grand Island, New York 14072

Nuclear Radiation Developments, Inc.

2937 Alt Blvd., Grand Island, New York 14072

